

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

NOTICE OF ADJUSTMENT OF RATES)	
OF WEST KENTUCKY RURAL TELEPHONE)	CASE NO. 8381
COOPERATIVE CORPORATION, INC.)	

O R D E R

On October 30, 1981, West Kentucky Rural Telephone Cooperative Corporation, Inc., ("West Kentucky") filed an application with this Commission giving notice of an adjustment of rates to become effective January 1, 1982. The proposed rates would produce additional revenue of \$232,417 annually, including projected revenue of \$12,342 based on the addition of 253 new stations. In determining the actual amount of increase requested by rural telephone cooperatives the Commission utilizes the number of subscribers at the end of the test period and the present and proposed rates. This methodology results in an accurate representation of the amount and percentage of increase requested. In these terms the requested increase was \$209,346 or 6.9 percent. By Commission Order, the effective date of the proposed tariffs was suspended until June 1, 1982, pursuant to the provisions of KRS 278.190.

On November 20, 1981, the Consumer Protection Division of the Attorney General's Office filed a motion to intervene in this proceeding, which was sustained.

On February 22, 1982, West Kentucky moved that Case No. 8352 (Expensing of Station Connections) be dismissed because tariffs have been filed in this case to recover the increase in operating costs caused by expensing of station connections, which motion was sustained.

A hearing was held at the Commission's offices in Frankfort, Kentucky, on March 5, 1982.

COMMENTARY

West Kentucky is a customer-owned telephone cooperative providing telephone service to approximately 10,644 subscribers in the Kentucky counties of Calloway, Carlisle, Graves, Hickman, McCracken and Marshall, and to an additional 1,578 in the Tennessee counties of Henry and Weakley.

TEST PERIOD

West Kentucky proposed and the Commission has adopted the 12-month period ending July 31, 1981, as the test period for determining the reasonableness of the proposed rates. In utilizing the historical test period, the Commission has given full consideration to appropriate known and measurable changes.

VALUATION

Net Investment

The Commission finds from the evidence of record that West Kentucky's intrastate net investment rate base at July 31, 1981, is as follows:

Utility Plant in Service	\$ 18,603,676
Construction Work in Progress	<u>37,275</u>
Total Utility Plant	\$ 18,640,951
Add:	
Materials and Supplies	\$ 352,097
Prepayments	<u>51,195</u>
Deduct:	
Accumulated Depreciation	<u>\$ 4,476,792</u>
Net Investment	<u><u>\$ 14,567,451</u></u>

West Kentucky proposed a net investment rate base of \$15,292,214. In determining its net investment rate base West Kentucky used the capital structure as of the end of the test year. In accordance with customary rate-making practices the Commission finds that the year-end value of utility plant and related facilities (less depreciation), materials and supplies, and prepayments is the proper basis for determining the net investment rate base. The Commission has adjusted the year-end rate base to reflect the pro forma adjustment to depreciation expense in the calculation of the accumulated provision for depreciation.

Capital Structure

The Commission finds from the evidence of record that West Kentucky's capital structure at the end of the test period was \$17,577,257 and consisted of \$522,481 in equity and \$17,054,776 in long-term debt. West Kentucky's net plant devoted to intra-state operations is 87 percent, resulting in \$15,292,214 of total capitalization being allocated to Kentucky operations.

The Commission has given due consideration to these and other elements of value in determining the reasonableness of the rate increase requested herein.

REVENUES AND EXPENSES

As a part of its original application West Kentucky filed a projected statement of income and expenses through 1983. However, in response to the Commission's information request as to the nature of the adjustments to the historical data, West Kentucky submitted a revised pro forma statement which is contained in item 21 of the December 22, 1981, information request. The Commission finds that the adjustments proposed by West Kentucky are generally acceptable for rate-making purposes with the following modifications:

Employee Concession Services

Local service revenues have been increased by \$8,584 to reflect, for Kentucky operations, the elimination of employee concession services for rate-making purposes. It is the opinion of this Commission that ratepayers should not be required to pay increased rates to return this lost revenue to West Kentucky.

Revenue Normalization

The Commission has adjusted operating revenue by \$112,088 to reflect the additional revenue that would be generated annually from the rates granted in Case No. 7927 based on the subscribers at the end of the test year.

Projected Revenue

West Kentucky proposed an adjustment to operating revenue to project the addition of 253 subscribers between July 31, 1979, and July 31, 1980. The Commission is of the opinion that the anticipated customer growth is speculative and therefore should not be included herein for rate-making purposes.

Uncollectible Accounts Expense

West Kentucky increased its provision for uncollectible accounts during the test year from 1.5 percent to 1.75 percent of local service and gross toll service revenue. In support of this adjustment, West Kentucky stated that the uncollectibles were eroding its reserve and that there would be a debit balance in the reserve if the rates were not increased.⁽¹⁾ The Commission is of the opinion that this adjustment is invalid. To allow West Kentucky to continue to increase its provision for uncollectible accounts without more conclusive evidence would further reduce its incentive to hold down this expense. In addition, West Kentucky's net write-offs for the test year were significantly lower than the test year provision which reflected 7 months of the new rate of 1.75 percent. Therefore, the Commission is of the opinion that the provision for uncollectibles of 1.5 percent is sufficient for rate-making purposes. The Commission has reduced test year uncollectible accounts by \$215 to reflect a 1.5 percent provision based on local service revenue and gross toll service revenue allowed herein.

(1) Transcript of Evidence, March 5, 1982, page 50.

Institutional Advertising Expense

Operating expenses have been decreased by \$2,162, the portion of institutional advertising expense allocated to intra-state operations. This adjustment has been made pursuant to the Commission's regulations regarding advertising expenditures allowable for rate-making purposes.

Interest Expense

West Kentucky proposed an adjustment of \$9,269 to test year interest expense. In determining the adjusted interest expense, West Kentucky assumed the loan funds advanced during the test year had been advanced at the beginning of the test period, August 31, 1980, and prorated interest expense for the days prior to the advanced dates of these loan funds. In using this method to adjust interest expense, West Kentucky has not considered the effect of debt retirements during the test period. Therefore, the Commission has adhered to its established policy of reflecting the annualization of interest expense based on long-term debt outstanding at the end of the test year and additional long-term debt drawn down through the course of the proceedings. Since West Kentucky did not draw down any loan funds subsequent to the test period, the Commission has adjusted interest expense by \$5,076 to reflect interest on the debt outstanding at the end of the test year.

Payroll Tax Expense

West Kentucky proposed an adjustment of \$3,637 to test year payroll tax expense. West Kentucky applied the increase in

the FICA rate effective January 1, 1982, to normalized salaries and wages and applied the new rate of 6.7 percent to the salary and wage increases approved by the Board of Directors effective September 1, 1981, for non-union employees and effective January 1, 1982, for union employees. However, the adjustment was understated for normalized salaries and wages because an FICA rate of 6.13 percent was in effect for the first 5 months of the test year and a rate of 6.65 percent effective January 1, 1981, was in effect for the other 7 months of the test year. Therefore, the Commission has increased payroll tax expense by \$6,453 to reflect the current FICA rate in effect of 6.7 percent based on total salaries and wages allowed herein that are subject to the FICA tax.

Salary and Wage Expense

West Kentucky proposed an adjustment of \$63,039 to salary and wage expense to reflect salary increases approved by the Board of Directors during the test year and salary increases approved by the Board effective September 1, 1981, for non-union employees and January 1, 1982, for union employees. In determining the adjustment, West Kentucky included \$320 in back pay for each union employee, which was approved as part of the union contract. Since these wages are non-recurring the Commission has excluded this amount of \$7,333 for rate-making purposes.

West Kentucky's wage adjustment for union employees reflected only 9 months of the increase approved on January 1, 1982. Therefore, the Commission has increased test year salary

and wage expense by \$64,506 to reflect the normalization of wage increases during the test year and the annual salary increase based on wage increases effective September 1, 1981, and January 1, 1982, for all employees.

Hospitalization Insurance Expense

West Kentucky proposed an adjustment of \$19,940 to hospitalization insurance expense to reflect an increase in the rates effective January 1, 1982. West Kentucky as a matter of policy has expensed 100 percent of its costs for hospitalization insurance. The Commission is of the opinion that these costs are wage-related and should be expensed and capitalized in approximately the same proportions as wages. Therefore, the Commission has made an adjustment to reduce the adjusted hospitalization insurance expense to 87.8 percent of the normalized test year expenditure, thus making the total allowed adjustment \$10,248.

Depreciation Expense

West Kentucky proposed an increase in depreciation expense of \$13,497 based on plant in service at the end of the test year. In determining the depreciation expense, West Kentucky included rates that were not in effect during the test year. West Kentucky failed to offer proof in support of a revision of its depreciation rates.

Further, the Commission requested West Kentucky at the hearing of March 5, 1982, to provide the depreciation rates during the test year and any changes to those rates. West Kentucky provided only the depreciation rates in effect during the

test year. Therefore, the Commission has adjusted test year depreciation expense by \$16,862 based on the plant in service and the depreciation rates in effect at the end of the test year.

The effect on net income of the revised pro forma adjustments is as follows:

	<u>Actual Test Period</u>	<u>Pro Forma Adjustments</u>	<u>Adjusted Test Period</u>
Operating Revenues	\$ 2,857,120	\$ 123,800	\$ 2,980,920
Operating Expenses	<u>2,237,621</u>	<u>95,907</u>	<u>2,333,528</u>
Operating Income	619,499	27,893	647,392
Interest on Long-Term Debt	702,586	5,076	707,662
Interest Income	<u>8,201</u>	<u>-0-</u>	<u>8,201</u>
Net Income	<u>\$ (74,886)</u>	<u>\$ 22,817</u>	<u>\$ (52,069)</u>

RATE OF RETURN

West Kentucky achieved a rate of return on the net investment rate base established herein for the test year of 4.3 percent. After taking into consideration the pro forma adjustments, West Kentucky would realize a rate of return of 4.4 percent. The Commission is of the opinion that the adjusted rate of return is inadequate and that a more reasonable rate of return is 5.9 percent. In order to achieve this rate of return, West Kentucky should be allowed to increase its annual revenue by \$209,346, which is the total amount of revenue requested herein based on customers at the end of the test year. The additional revenue will provide net income of \$157,364, which results in a TIER of 1.2.

Station Connections

On February 25, 1982, Case 8352 (Expensing of Station Connections) was made a part of the record in this case. The

Commission has reviewed the information submitted by West Kentucky in relation to expensing of station connections and finds it to be insufficient to make a decision at this time. Therefore, the Commission is of the opinion that its Order dismissing Case 8352 should be rescinded. The issue of expensing of station connections will be decided in Case 8352 following an investigation into the proposed costs.

RATE DESIGN

West Kentucky proposed rate adjustments in local exchange service, service charges, and miscellaneous charges. The proposed rates are granted, except as discussed below, and should produce the revenue authorized in this Order.

In conjunction with its plan for the expensing of station connections, West Kentucky proposed to adjust service and miscellaneous charges to align rates with the cost of service installations and rearrangements. As a result, some service and miscellaneous charges have been increased while others have been decreased.

In addition, West Kentucky proposed that premises work exceeding 30 minutes be charged at a time and materials rate in 30-minute increments. The Commission agrees that premises work exceeding the average time used in designing rates should be charged at a compensatory rate. However, the Commission finds that 30-minute increments are not reasonable and orders the use of 15-minute increments at a time and materials rate and under the conditions specified in Appendix A.

Finally, although the Commission has authorized service and miscellaneous charges in this Order, it will reconsider these charges in Case No. 8352, along with the expensing of station connections.

SUMMARY

The Commission, after consideration of the evidence of record, finds that:

(1) The rates and charges in Appendix A will produce gross annual operating revenues of approximately \$3,244,361, including concession rates of \$8,584, and are the fair, just and reasonable rates and charges to be charged in that they will allow West Kentucky to pay its operating expenses, service its debt and provide a reasonable surplus for equity growth.

(2) The rates and charges proposed by West Kentucky, insofar as they differ from those in Appendix A, should be denied.

IT IS THEREFORE ORDERED that the proposed rates and charges in West Kentucky's application, insofar as they differ from those in Appendix A, be and they hereby are denied.

IT IS FURTHER ORDERED that the rates and charges in Appendix A be and they hereby are approved for telephone service rendered by West Kentucky on and after June 1, 1982.

IT IS FURTHER ORDERED that within 30 days of the date of this Order, West Kentucky shall file its revised tariff sheets setting forth the rates and charges approved herein.

Done at Frankfort, Kentucky, this 3rd day of June, 1982.

PUBLIC SERVICE COMMISSION

Marlin M. Wolf
Chairman

Katherine Randall
Vice Chairman

Jim Hargan
Commissioner

ATTEST:

Secretary

APPENDIX A

APPENDIX TO AN ORDER OF THE PUBLIC SERVICE COMMISSION IN CASE NO. 8381 DATED JUNE 3, 1982

The following rates and charges are prescribed for customers served by West Kentucky Rural Telephone Cooperative Corporation, Inc. All rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of the Commission prior to the effective date of this Order.

Rates, Rules and Regulations

Part II

Rates and Charges

A. Service Charges

The following service charges are based on the cost of the work functions required: i.e., service order, line connection, premise visit, premise work, and station handling. Service charges that involve premise work may involve a charge in addition to the initial non-recurring charge.

1. Station Connection Charges

- a. Charges for station connections apply as stated below, except as otherwise provided herein:

	<u>Non-recurring Charge</u>	
	<u>Business</u>	<u>Residence</u>
<u>Main Stations</u>		
Instrument in place	\$11.00	\$11.00
Instrument not in place	43.50*	38.50**
Initial pre-wiring	31.00*	26.00**
Pre-wiring completion	12.50	12.50

A. Service Charges (Cont'd)

1. Station Connection Charges (Cont'd)

	<u>Non-recurring Charge</u>	
	<u>Business</u>	<u>Residence</u>
<u>Extension Stations</u>		
All extension stations	\$36.00	\$31.00
*Premise work exceeding 1 hour shall be charged at the rate of \$3.75 per 15-minute increment, or fraction thereof.		
**Premise work exceeding 1/2 hour shall be charged at the rate of \$3.75 per 15-minute increment, or fraction thereof.		

3. Move and Change Charges

- b. Charges for moves and changes of telephone service equipment apply as stated below, except as otherwise provided herein.

	<u>Non-recurring Charge</u>	
	<u>Business</u>	<u>Residence</u>
<u>Minimum Trip</u>		
All minimum trips	\$16.00	\$16.00
<u>Inside Move</u>		
All main stations	36.00*	31.00**
All extension stations	36.00*	31.00**
<u>Outside Move</u>		
All main stations	23.50	23.50
All extension stations	23.50	23.50
*Premise work exceeding 1 hour shall be charged at the rate of \$3.75 per 15-minute increment, or fraction thereof.		
**Premise work exceeding 1/2 hour shall be charged at the rate of \$3.75 per 15-minute increment, or fraction thereof.		

A. Service Charges (Cont'd)

4. Change Charges

- a. Charges for changes in the type or color of telephone equipment apply as stated below, except as otherwise provided herein:

<u>Change Type or Color</u>	<u>Non-recurring Charge</u>	
	<u>Business</u>	<u>Residence</u>
All type or color changes	\$16.00	\$16.00
Service call	11.00	11.00

5. Reconnection Charges

- a. Charges for the reconnection of telephone service that has been disconnected for non-payment of any amount due, or failure to comply with the regulations of the Kentucky Public Service Commission, apply as stated below, except as otherwise provided herein:

<u>Reconnection</u>	<u>Non-recurring Charge</u>	
	<u>Business</u>	<u>Residence</u>
All reconnections	\$11.00	\$11.00

6. Service Charge on Customer-owned Equipment Causing Interference and Service Problems

- a. Charges for service on customer-owned equipment causing interference or service problems are stated below, except as otherwise provided herein:

A. Service Charges (Cont'd)

6. Service Charge on Customer-owned Equipment Causing

Interference and Service Problems (Cont'd)

Non-recurring Charge

Business Residence

Service Charge

All service calls \$36.00* \$31.00**

*Premise work exceeding 1 hour shall be charged at the rate of \$3.75 per 15-minute increment, or fraction thereof.

**Premise work exceeding 1/2 hour shall be charged at the rate of \$3.75 per 15-minute increment, or fraction thereof.

B. Mileage, Class of Service, Rates

2. Class of Service

- a. Charges for business and residence exchange telephone service apply as stated below, except as otherwise provided herein:

Monthly Rate

Business Residence

Exchange Rates

One-party service	\$21.50	\$15.00
Extension service	2.00	1.50

- b. Charges for public pay stations are as stated below, except as otherwise provided herein:

Monthly Rate

Pay Station Rate

All pay stations \$21.50

- c. The coin rate for public pay stations shall be \$0.25 per local call.

C. Miscellaneous Charges

Miscellaneous charges apply as stated below, except as otherwise provided herein:

	<u>Non-recurring Charge</u>	
	<u>Business</u>	<u>Residence</u>
<u>Number Change</u>		
Number change without premise visit	\$11.00	\$11.00
Number change, with premise visit	18.50	18.50
<u>Jack Installation</u>		
Install inside jack	31.00*	26.00**
Install outside jack	36.00*	31.00**
<u>Speaker-phone Installation</u>		
Install speaker-phone	36.00*	31.00**
<u>Separator Installation</u>		
Install separator jack for customer-owned equipment with FCC registration number	31.00*	26.00**
<u>Cord Installation</u>		
Install 14-foot straight cord***	18.75	18.75
Install 25-foot straight cord***	19.50	19.50
Install 12-foot coil cord***	20.75	20.75
Install 25-foot coil cord***	23.25	23.25
<u>Amplifier, Bell, Etc., Installation</u>		
Install outside bell	36.00*	31.00**
Install howler	36.00*	31.00**
Install relay	36.00*	31.00**
Install handset amplifier	31.00*	26.00**

*Premise work exceeding 1 hour shall be charged at the rate of \$3.75 per 15-minute increment, or fraction thereof.

**Premise work exceeding 1/2 hour shall be charged at the rate of \$3.75 per 15-minute increment, or fraction thereof.

***If no service order and premise visit is required, the rate is reduced in the amount of \$11.00.

D. Key System Charges

Key system charges apply as stated below, except as otherwise provided herein:

	<u>Non-recurring Charge</u>	
	<u>Business</u>	<u>Residence</u>
<u>Key System Installation</u>		
Install two-button set	\$43.50*	\$38.50**
Install three-button set	43.50	38.50
Install four-button set	43.50	38.50
Install six-button set	43.50	38.50
Install twelve-button set	43.50	38.50
Install hands-free key telephone	43.50	38.50
Install music-on-hold	43.50	38.50
Install call announcer	43.50*	38.50**

*Premise work exceeding 1 hour shall be charged at the rate of \$3.75 per 15-minute increment, or fraction thereof.

**Premise work exceeding 1/2 hour shall be charged at the rate of \$3.75 per 15-minute increment, or fraction thereof.

E. Code-A-Phone Charges

Code-A-Phone charges apply as stated below, except as otherwise provided herein:

	<u>Non-recurring Charge</u>	
	<u>Business</u>	<u>Residence</u>
<u>Code-A-Phone Installation</u>		
Install code-a-phone, all models	\$43.50*	\$38.50**
Install code-a-phone electronic dialer	43.50*	38.50**

*Premise work exceeding 1 hour shall be charged at the rate of \$3.75 per 15-minute increment, or fraction thereof.

**Premise work exceeding 1/2 hour shall be charged at the rate of \$3.75 per 15-minute increment, or fraction thereof.

G. Special Circuit Charges

Special circuit charges apply as stated below, except as otherwise provided herein:

	<u>Non-recurring Charge</u>	
	<u>Business</u>	<u>Residence</u>
<u>Special Circuit Installation</u>		
Install radio loop	\$38.50*	\$33.50**
Install radio patch	38.50*	33.50**

*Premise work exceeding 1 hour shall be charged at the rate of \$3.75 per 15-minute increment, or fraction thereof.

**Premise work exceeding 1/2 hour shall be charged at the rate of \$3.75 per 15-minute increment, or fraction thereof.

H. Special Telephone Charges

Special telephone charges apply as stated below, except as otherwise provided herein:

	<u>Non-recurring Charge</u>	
	<u>Business</u>	<u>Residence</u>
<u>Special Telephone Installation</u>		
Install speaker-phone	\$36.00*	\$31.00**
Install cutoff switch	36.00	31.00
Install data coupler	36.00	31.00
Install chime or tone ringer	36.00	31.00
Install voice coupler	36.00*	31.00**

*Premise work exceeding 1 hour shall be charged at the rate of \$3.75 per 15 minute increment, or fraction thereof.

**Premise work exceeding 1/2 hour shall be charged at the rate of \$3.75 per 15-minute increment, or fraction thereof.